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Report of the Executive Director on the implementation of the recommendations of the Board of Auditors for the biennium 2000-2001*

Summary

The present report provides the status of the implementation by the United Nations Office for Project Services (UNOPS) of the recommendations of the Board of Auditors contained in document DP/2002/CRP.13 presented to the Executive Board at its annual session 2002. Two specific recommendations that have been implemented for the second regular session 2002, as requested by the Executive Board, are contained as addenda to the present report: DP/2002/35/Add.1 on the UNOPS action plan on savings from projected staff cuts and DP/2002/35/Add.2 on the UNOPS contingency plan with regard to the operational reserve. This report has been reviewed by the Management Coordination Committee.

The Executive Board may wish to take note of the present report (DP/2002/35).

I. Introduction

1. The present report is submitted pursuant to Executive Board decision 2002/13 of 27 June 2002, and specifically paragraph 18, wherein the Executive Board requested that the United Nations Office for Project Services (UNOPS) implement the recommendations of the Board of Auditors and report on its implementation plan and progress to the Executive Board at its second regular session 2002. It is to be noted that the signed Report of the Board of Auditors was distributed to members of the Executive Board, at its request, as document DP/2002/CRP.13 at the annual session 2002. The report of the Board of Auditors is normally discussed at the first regular session of the year following the issuance of the report.

2. The status of the implementation of the recommendations of the Board of Auditors is contained in the annex to the present report.

* The collection and analysis of current data required to present the Executive Board with the most up-to-date information has delayed submission of the present document.

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3. In its decision 2002/13, the Executive Board also requested that UNOPS provide at the second regular session 2002 two plans recommended by the Board of Auditors. Document DP/2002/35/Add.1 provides an action plan on savings from projected staff cuts in 2002, while document DP/2002/35/Add.2 provides a contingency plan to address measures to be taken in the event that the operational reserve is unable to absorb possible deficits in the biennium 2002-2003.

II. Status of the implementation of the recommendations of the Board of Auditors

4. The report of the Board of Auditors includes 18 recommendations, of which 15 concern financial issues and three management issues. The reasons for the UNOPS agreement with 16 of the recommendations and its disagreement with two recommendations are contained in the annex to the present document. As of the date of the present report, UNOPS has completed implementation of 10 of the 16 agreed recommendations.

5. The majority of the recommendations concern the establishment and monitoring of targets and business variables that lead to the UNOPS business planning and budgeting exercise. The Executive Director is appreciative of the assistance of the Board of Auditors in this important area. He agrees that improvements are critical if UNOPS is to respond better to the continuing need for its service to the United Nations system of organizations in a cost-effective manner, as expressed by the Secretary-General in his note to the Executive Board at its first regular session 2002 (DP/2002/CRP.5).

Annex

A. Financial issues

6. *Recommendation 1.* UNOPS should exercise caution in its budgetary assumptions and income projections to ensure that realistic targets are established (paragraph 22).

7. *Status.* UNOPS has completed the implementation of the recommendation. In early 2002, UNOPS developed a new business planning methodology in response to the 2001 income shortfall that it experienced. The methodology utilized conservative and prudent delivery and income projections that in turn determined the 2002 level of the administrative expenditure approved by the Executive Board at its annual session 2002. Based on a rigorous review of the project portfolio, a detailed analysis was carried out to distinguish between guaranteed delivery, hard delivery and soft delivery. The exercise resulted in a project delivery target of $503 million and an income and administrative budget of $44 million. Consistent with the achievements reported by the Executive Director at the annual session 2002 of the Executive Board, cumulative delivery and income, as of 31 July 2002, are ahead of the 2001 levels and the 2002 targets while administrative expenditure is in line with the pro-rated annual amount for end July. UNOPS, therefore, expects to match or exceed the overall estimated income for 2002. The Deputy Executive Director/Director of Operations is responsible for these ongoing financial management practices.

8. *Recommendation 2.* UNOPS should (a) continue to review its medium-term strategy in a comprehensive manner, including such elements as an analysis of the variables related to business from UNDP with a view to aligning its project delivery approach; and (b) embark on a strategy to diversify further its client base within the United Nations system (paragraph 26).

9. *Status.* For the short and medium term, UNOPS will continue to carry out periodic analysis of the variables related to various clients, including UNDP, in the framework of its annual business planning and budget exercises.

Likewise, UNOPS will continue to pursue its strategy to diversify its client base within the United Nations system, especially in connection with the recommendation made by the Secretary-General to the entities in the system to use UNOPS services on a broader scale. In this context, UNOPS will pay particular attention to: (a) continuing its efforts to remain cost-effective; and (b) concentrating its diversification strategy on specialized agencies of the United Nations system, given the large long-term potential existing among them. The Executive Director is responsible for this ongoing activity.

10. *Recommendation 3.* UNOPS should evaluate the basis and calculation of the cost of services to ensure that all costs are identified and recovered and that the piloted system addresses all shortcomings identified in the Project Management Office workload system (paragraph 32).

11. *Status.* As the Board of Auditors has noted, a new system of calculating fee costs has been piloted. The new fee calculation system is designed to ensure that all costs of project services are properly identified, thereby enabling UNOPS to estimate better the income from clients needed to cover full project costs. The Deputy Executive Director/Director of Operations is responsible for this activity. UNOPS hopes to implement the new system throughout the organization in 2003, subject to available budgetary resources.

12. *Recommendation 4.* UNOPS should evaluate its procedures for controlling costs with a view to meeting project delivery needs while ensuring flexibility to adapt to increases in the level of service delivery (paragraph 39).

13. *Status.* The implementation of this recommendation has been completed. As recommended by the Board of Auditors, UNOPS is monitoring its administrative costs on a regular basis with the continuing objective of achieving a balanced budget by the end of 2002. The Executive Director has established an Implementation Group to assist him in monitoring the implementation of the 2002 budget consolidation exercise. The Group reviews and endorses major changes in costs that inevitably emerge during the course of the year as a result of unforeseen opportunities or obstacles in project delivery. The Executive Director is responsible for this ongoing activity.

14. *Recommendation 5.* UNOPS should prepare budgets and revisions thereto on a basis which is more in line with realistic project delivery (paragraph 43).

15. *Status.* The implementation of this recommendation has been completed. At the end of June 2002, UNOPS established a new mechanism for a thorough mid-year major review of the delivery and income estimates at the level of operations divisions. The review went into greater depth and analysis than the monthly delivery monitoring exercise that is regularly performed. The overall delivery and income, as of 30 June 2002 (also as of 31 July 2002, as explained in paragraph 1), continues to be on track for the achievement of the annual delivery and income targets approved by the Executive Board. There have been, however, some changes in the rate of delivery target achievements of some divisions, which has led to mid-year division level adjustments in both income and cost in order for the overall estimated income for 2002 to be matched or exceeded. The Deputy Executive Director/Director of Operations is responsible for this ongoing activity.

16. *Recommendation 6.* UNOPS should continuously monitor actual performance against clearly defined targets and assess the specific methods to restore the operational reserve to its required level. The Board further recommends that UNOPS should communicate such performance and measures taken to the Executive Board (paragraph 47).

17. *Status.* The implementation of this recommendation has been completed. UNOPS continues to monitor, on a monthly basis, actual performance of delivery, income and administrative expenditures against the 2002 business plan targets that were subsequently approved by the Executive Board at its annual session 2002. These performance reports and results will also be reported to the Executive Board at its second regular session 2002 as

was done at the annual session. By ensuring a balanced budget by the end of 2002 and an operating surplus in 2003, UNOPS plans to reverse the decline in the operational reserve that has occurred in recent years and begin its restoration. The Executive Director is responsible for this ongoing activity.

18. *Recommendation 7.* While the Board recognizes the efforts made by UNOPS to review unliquidated obligations (ULOs), it recommends that UNOPS should conduct more regular reviews of all ULOs in a timely manner (paragraph 49).

19. *Status.* The implementation of this recommendation has been completed. Balances of ULOs for the UNOPS account dealing with the administrative budget are reviewed systematically on a quarterly basis by the division chiefs concerned. This review is made in coordination with the Division for Finance, Budget and Administration and appropriate adjustments are made.

20. *Recommendation 8.* UNOPS should: (a) compute the full costs incurred in respect of services to the International Fund for Agricultural Development (IFAD) to determine the feasibility of this service line; and (b) disclose the full IFAD costs in schedule 2 to the financial statements (paragraph 51).

21. *Status.* UNOPS is undertaking a detailed review of its cost of services for the IFAD programme to ascertain that its costs continue to be fully covered by the management fees received. UNOPS has notified IFAD senior management of this exercise and the need for an adjustment of the management fee should the exercise reveal that UNOPS costs are not fully covered. The inclusion of parts of the IFAD costs in schedule 2 to the UNOPS financial statements, those related to travel and consultants, was recommended in previous management letters and reports of the Board of Auditors. UNOPS recognizes that such partial disclosure has led to the impression that the full costs of the services to IFAD are not fully recovered. Since, in schedule 2, furthermore, it does not disclose specific costs attributable to any of its United Nations clients, UNOPS has decided to discontinue the practice of disclosing partial costs attributable to the IFAD programme in its financial statements. The Deputy Executive Director/Director of Operations is responsible for the management fee review to be completed by the end of the third quarter 2002.

22. *Recommendation 9.* UNOPS should, in conjunction with the United Nations and its funds, programmes and specialized agencies, review the funding mechanism and targets for end-of-service benefits. The Board considers that UNOPS may need to expedite its consideration of funding the end-of-service liabilities given its unique funding principles of UNOPS (paragraph 53).

23. *Status.* Following a request of the Advisory Committee on Administrative and Budgetary Questions (ACABQ), the United Nations Secretariat is preparing a report on the long-term implications and impact of the growth in the liability of the organization for after-service health benefits that will be submitted to the General Assembly at its 57th session. UNOPS has participated in a recent joint study to develop estimates of the after-service health liabilities, which is the most significant of all after-service liabilities. The report on this study was received recently and UNOPS is currently reviewing it and considering funding implications. It is expected that a course of action will be proposed by the end of the second quarter 2003. The Executive Director is responsible for this activity.

24. *Recommendation 10.* UNOPS should consider presenting to the Executive Board for approval variable budgets based on several levels of activity, clearly identifying the most likely level of activity (paragraph 59).

25. *Status.* UNOPS does not agree with this recommendation. UNOPS does prepare and evaluate, together with the Management Coordination Committee (MCC) working group, and the MCC, variable budgets that are based on various assumptions and operational options. It is only the most likely budget scenario, as agreed by the UNOPS Executive Director and the MCC, that is presented to ACABQ and the Executive Board.

26. *Recommendation 11.* UNOPS should continue to monitor closely the rate of project income and to re-evaluate any assumptions and overall project income strategy and policy (paragraph 62).

27. *Status.* The implementation of this recommendation has been completed. UNOPS agrees with the Board of Auditors that project income rates, which over the last few years have been under considerable downward pressure, have a major impact on the UNOPS self-financing imperative and the rate of buildup of its operational reserve. UNOPS will continue to monitor this important business parameter and continue to negotiate with clients on an ongoing basis. The Deputy Executive Director/Director of Operations is responsible for this ongoing activity.

28. *Recommendation 12.* A clear and definite action plan should be compiled on how, where and when savings from staff cuts will be made and monitored. All costs should be closely monitored and a revised submission made to MCC in order to obtain approval should it become evident that the required cap of administrative expenditure will be exceeded (paragraph 67).

29. *Status.* The action plan has been completed and is contained in document DP/2002/35/Add.1. The action plan has been submitted to the MCC and is monitored by UNOPS management on a regular basis.

30. *Recommendation 13.* UNOPS should intensify it efforts to attain and make provisions for all possible and foreseeable expenditure in respect of information and communications technology (ICT) both in the 2002 budget and beyond. The specific effects of a new computer system on accurate financial reporting should be considered rather urgently (paragraph 73).

31. *Status.* The implementation of this recommendation has been completed. UNOPS has included in the 2002 and 2003 budgets all currently foreseeable budget costs relating to ICT including provisions for its possible participation in the UNDP Enterprise Resource Planning (ERP). UNDP has only started implementation of the ERP in recent months and provided UNOPS in August 2002 broad estimates of UNOPS costs that are presently under review along with other possible options. The Chief Information Officer is responsible for this ongoing activity.

32. *Recommendation 14.* UNOPS should prepare a contingency plan, to be submitted to the Executive Board for approval, addressing measures to be taken in the event that the operational reserve is unable to absorb possible deficits (paragraph 77).

33. *Status.* The contingency plan has been prepared and is contained in document DP/2002/35/Add.2.

34. *Recommendation 15.* UNOPS should consider expanding the use of junior professional officers (JPOs) as a cost-effective mechanism, especially in these times of financial constraints (paragraph 79).

35. *Status.* UNOPS does not agree with this recommendation. UNOPS complies fully with the objectives of sponsoring Governments when it comes to the assignment of junior professional officers, be it for the purpose of simply accruing international public-sector experience or for the grooming of junior international civil servants for long-term careers with the United Nations system. In keeping with this spirit, UNOPS does not view JPOs as free labour but rather as a valuable investment, and possibly an element of succession planning for the organization, and thus assumes responsibility for training. UNOPS has taken a long-term commitment in the case of certain JPOs who were assigned to managing project portfolios and who, by the end of their JPO term, had developed a portfolio large enough to sustain their individual cost to the organization.

B. Management issues

36. *Recommendation 16.* The agreements between UNOPS and UNDP should be finalized expeditiously in order to regulate the functions of central services received from UNDP and should include the respective functions, responsibilities and cost structures between UNOPS and UNDP. Furthermore, the Board recommends that a service-level agreement be concluded for human resources (paragraph 87).

37. *Status.* UNOPS continues to negotiate an agreement to cover services outsourced to UNDP with emphasis on a clear division of labour. While this initiative is considered an ongoing process, which will always require monitoring and adjustment, the possibility of UNOPS directly handling certain functions in the area of human resources will simplify the service level requirements and generally advance the conclusion of an agreement. The Assistant Director, Finance, Budget and Administration, is responsible for this activity.

38. *Recommendation 17.* UNOPS should arrange for internal oversight coverage of financial procedures, controls and data (paragraph 90).

39. *Status.* The implementation of this recommendation has been completed. UNOPS has incorporated coverage of financial procedures, controls and data into the 2002 work plan for its internal auditors. The Assistant Director, Division for Legal and Procurement Support, is responsible for this activity.

40. *Recommendation 18.* UNOPS should: (a) compile a short and long-term ICT strategic plan for the deployment of ICT, which should be updated on a continuous basis; and (b) develop formally documented and approved procedures or guidelines on aspects such as security, disaster-recovery planning, backups amd system development (paragraph 92).

41. *Status.* UNOPS will continue to develop and review its short and long-term ICT strategy. Systems procedures such as disaster-recovery planning, systems backup and restore, and network security are being developed. As the documents are completed and tested, they will be reviewed and approved to become the official document for systems guidelines and procedures. They will be kept updated to reflect the requirements and changes of the systems. The Chief Information Officer is responsible for this area, with planned completion scheduled for the end of the fourth quarter 2002 of the strategic plan and procedures for disaster-recovery planning, systems backup and restoration, and network security.